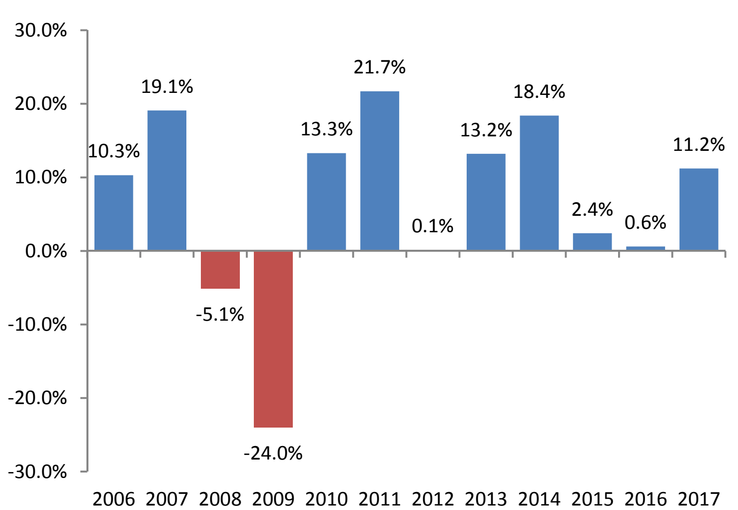
APPLETON PARTNERS, INC.

THIS WEEK IN THE BOND MARKET
07/24/2017

CalPERS Reports Strong Fiscal 2017 Results

- California Public Employees' Retirement System, the largest pension plan in the U.S., returned 11.2% on investments for the fiscal year ending June 30th.
- This far outpaces the plan's newly revised 7.0% return assumption as well as the meager returns posted over the last few years (2.4% in 2015 and 0.6% in 2016). The plan's 5-year return is now a healthy 9.0%, but the 10-year average return, which includes the financial crisis, is a lower 4.3%.
- A bellwether for other large pensions, CalPERS' strong investment performance could mean pension plans may experience a reprieve, if for only a short period, from consistently growing unfunded liabilities driven by underperforming assets.

CALPERS INVESTMENT PERFORMANCE RECOVERS IN FY 2017



Source: California Public Employees' Retirement System, Facts At a Glance

FIXED INCOME INDEX RETURNS AS OF 7/21/2017	MTD	YTD
Barclays 3Yr	0.37	2.19
Barclays 5Yr	0.67	3.86
Barclays 7Yr	0.85	4.80
Barclays MM Short 1-5Yr	0.42	2.44
Barclays MM 1-10Yr	0.73	4.09
ML US Gov/Corp 1-10 Yr	0.44	1.85

Source: Interactive Data

Fed Meeting, GDP in Focus

- The team at Appleton will be watching a number of macro items this week. The Fed concludes a two day meeting with a policy announcement this Wednesday afternoon. There will be no press conference or "dot plot" update, but we will be watching for any communication regarding the Fed's plan for winding down their enormous balance sheet. We will also be watching Friday's first reading on second quarter GDP. Consensus is for +2.7% growth, which would be a rebound from the first quarter's +1.4% reading. Lastly, we will be monitoring Washington, DC for any indication on the Senate's plan to proceed with a vote on the latest healthcare bill.

Muni Market Overview

- The muni market showed strength this week with yields down 8-10 bps across the curve. The 5Yr ended the week at 1.21%, which is down 10bps from last week, and the 7Yr ended the week at 1.47%, down 9bps. The 2Yr-10Yr spread, which is 96bps, is slightly higher than the recent lows at 90bps. The shift down is primarily due to the supply and demand imbalance in the muni market.
- The muni calendar expects just $4.5 billion of issuance this week, which is significantly lower than the $7.8 billion weekly average for the year. Indicating that we have entered the slow summer issuance months, the 30-day visible supply has dropped to about $6.7 billion.
- On the demand side, mutual fund flows were positive $299 million this week, after a couple of weeks of inconsistent flows. For the year, flows are positive $6 billion.

Corporate Market Overview

- IG Corporate credit spreads continue to hover around YTD tight levels and levels that we have not seen since September 2014. The Bank of America ML US Corp IG Index OAS has traded in a band of 122 and 103 currently. For perspective, the widest level seen over the past 28 years was 555 back in December of 2008 and the tightest level was 54 back in March of 1997. With that being said, demand for credit is very strong. Last week's $52.45 billion in new issuance was well received. The majority of that volume was created by banks exiting their earnings blackout periods. Those include the $7 billion issued by BOA, the $5.75 billion from Citigroup, $4 billion from JP Morgan, and $3.75 billion by Wells Fargo.
- US treasury rates rallied last week. The benchmark 10Yr began the week at 2.32% but dropped 8 bps to 2.24% to close it out. Although, there will likely be no surprising news out of the Fed, all attention will be focused on the result of the Fed meeting and rate decision on Wednesday.

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